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SUBJECT: TREASURY DAS GLASER PRESSES ILLICIT FINANCE,
NORTH KOREAN CONCERNS WITH MONGOLIAN GOVERNMENT AND
BANKS

SENSITIVE BUT UNCLASSIFIED - NOT FOR INTERNET
DISTRIBUTION.

¶1. (SBU) SUMMARY: During Deputy Assistant Secretary for Terrorist Financing and Financial Crimes Daniel Glaser's June 9 meetings with Government of Mongolia officials and banking representatives, he discussed U.S. concerns with respect to North Korean illicit activities. He discussed U.S. actions against WMD proliferation entities as well as its efforts against Banco Delta Asia (BDA) in Macau, and how these efforts have compelled North Korean entities to seek financial services elsewhere, including Mongolia. Glaser stressed the need for vigilance, and Mongolian officials responded that they took these issues seriously and were committed to ensuring their financial system was not abused by North Korean entities engaged in illicit activities. Glaser also discussed the importance of passing effective anti-money laundering (AML) and counter-terrorist financing (CTF) legislation as well as building a strong supervisory framework and regulatory systems that meet international standards. He underscored the importance of strengthening Mongolia's AML/CTF regime not only to better protect itself from illicit finance more generally, but because this would better enable Mongolia to protect itself from being exploited by North Korean or other entities engaged in illicit activities, including WMD proliferation. Glaser expressed appreciation for Mongolia's cooperation in this regard. END SUMMARY.

¶2. (U) Treasury Deputy Assistant Secretary for Terrorist Financing and Financial Crimes Daniel Glaser, accompanied by Amit Sharma, Treasury Department Senior Advisor, Terrorist Financing & Financial Crimes and Anthony J. Ruggiero, Defensive Measures Action Officer, Office of Counterproliferation Initiatives, State Department, visited Mongolia June 9-10. In addition to meeting with the Ambassador and country team, DAS Glaser met June 9 with representatives of the Bank of Mongolia, Ministry of Finance, Ministry of Justice, Foreign Ministry, the Financial Regulatory Commission and Mongolian law enforcement and security agencies. In addition, he met with the representatives of Mongolian commercial banks and non-bank financial institutions.

13. (SBU) In his meetings with GOM and banking officials, DAS Glaser:

-- Discussed U.S. concerns with respect to North Korea, including WMD proliferation, currency counterfeiting, drug trafficking and associated money laundering. He described U.S. actions to protect the international financial system from abuse by North Korean or other entities engaged in such activity, such as the Section 311 designation of Banco Delta Asia (BDA) in Macau and the EO 13382 designations of North Korean entities engaged in proliferation activities.

-- Encouraged GOM and Mongolia's financial community to continue to be vigilant to North Korean entities looking to them to facilitate their illicit activities. He noted that as a result of the BDA action, DPRK entities are looking throughout Asia for financial institutions to facilitate their illicit activities. He thanked them for their efforts thus far to ensure such abuse was prevented in the Mongolian financial system, and encouraged ongoing efforts in this area.

-- Encouraged Mongolia to pass needed Anti-Money-Laundering (AML) legislation that met international standards as soon as possible. Mongolia is scheduled for an Asia Pacific Group (APG) mutual evaluation this fall and the absence of a suitable AML law would reflect very poorly on their assessment. Passage of AML legislation would send a strong signal to the international finance community that Mongolia is serious about AML, and that they are serious about combating illicit finance of all kinds. Glaser noted that the international financial community is increasingly aware

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of weak AML regimes and has begun declining business where strong AML laws and systems are absent. In fact, Mongolian banks have recently had difficulty establishing correspondent banking relationships for lack of an AML law.

-- Encouraged Mongolia to review existing laws and pass a counter-terrorism finance (CTF) law compliant with international standards in addition to an AML law.

-- Stressed the need for banks to keep in mind concerns about North Korean illicit activities including money-laundering and weapons of mass destruction proliferation. Glaser cited how responsible jurisdictions and financial institutions have reacted after the U.S. designation of BDA as a "primary money laundering concern." The absence of AML and CFT laws and a strong supervisory regime provide an attractive environment for DPRK entities that they may wish to exploit - sending them the message that Mongolia is a safe place to do illicit business. This poses a significant reputational risk to Mongolian institutions if improper activities are exposed.

-- Encouraged all GOM stakeholders to actively participate in Mongolia's development of their AML/CFT regime. Also encouraged all stakeholders (not just Central Bank officials) to participate in the APG to ensure all relevant sectors are aware of the international standards and understand the importance of building a comprehensive AML/CFT regime. The upcoming APG Plenary in July is particularly timely in this regard as Mongolia is slated to undergo a mutual evaluation this fall - which will be a comprehensive assessment of its AML/CTF capabilities in all relevant sectors.

-- Expressed appreciation for cooperation from GOM and financial community; both are strong partners in the efforts to clamp down on illicit financial activities, in particular those associated with North Korea.

14. (SBU) Highlights of his meetings included:

-- Acknowledgement by Mongolian commercial bankers of risks posed to their banks and Mongolia's financial system by illicit activities and specifically North Korean activities.

-- A Golomt Bank representative described the problems it faced as a result of a recent North Korean banking transaction (the February transfer of US\$1 million and Yen 2 million in cash). Golomt has cut its relationships with DPRK firms and banks.

-- Virtually all contacts sought more information on AML and CTF efforts as well as additional training in institutional AML/CTF best practices.

-- Law enforcement and security agency officials flagged potential legal authority and enforcement problems in Mongolia's pending AML law.

-- Ministry of Foreign Affairs officials revealed that the government is moving to tighten down on travel by North Koreans by requiring visas for North Koreans except for North Korean diplomatic or official passport holders. MFA and MOF officials agreed that North Korean illicit activities posed a threat to Mongolia and requested that the U.S. share as much information specific to North Korean activities in Mongolia.

15. (U) DAS Glaser cleared this message.

SLUTZ